

LAKE PARK MUNICIPAL UTILITIES
(A Component Unit of the City of Lake Park, Iowa)

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2014

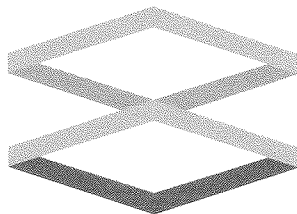
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LAKE PARK MUNICIPAL UTILITIES

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
(Before January 2014)		
Brent Jacobsen	Chairman	December 31, 2018
Tony Lemker	Vice-Chairman	December 31, 2016
Vivian LaLone	Secretary/Treasurer	December 31, 2013
Carl Gochnauer	Trustee	December 31, 2014
Carol Johnson	Trustee	December 31, 2015
Linda Treharne	Municipal Clerk	Indefinite
(After January 1, 2014)		
Brent Jacobsen	Chairman	December 31, 2018
Tony Lemker	Vice-Chairman	December 31, 2016
Vivian LaLone	Secretary/Treasurer	December 31, 2019
Carl Gochnauer	Trustee	December 31, 2014
Carol Johnson	Trustee	December 31, 2015
Linda Treharne	Municipal Clerk	Indefinite



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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Lake Park Municipal Utilities

Report on the Financial Statements

We have audited the accompanying financial statements of the electric, water and gas enterprise funds of Lake Park Municipal Utilities (Utilities), a component unit of the City of Lake Park, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise Lake Park Municipal Utilities' basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion

As discussed in Note 7, the Utilities did not record or disclose the net annual required contribution for other postemployment benefits (OPEB) or the net OPEB obligation liability as required by Governmental Accounting Standards Board Statement No. 45. The effect on the financial statements of this departure is not reasonably determinable.

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion” paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the electric, water and gas enterprise funds of Lake Park Municipal Utilities at June 30, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the electric, water and gas enterprise funds of Lake Park Municipal Utilities, a component unit of the City of Lake Park, and do not purport to, and do not, present fairly the financial position of the City of Lake Park as of June 30, 2014 and the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters*Required supplementary Information*

Accounting principles generally accepted in the United States of America require the Budgetary Comparison Information on pages 20 and 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Lake Park Municipal Utilities has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insight on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2014 on our consideration of Lake Park Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lake Park Municipal Utilities' internal control over financial reporting and compliance.

Winter, Starn & Co., LLP

October 10, 2014
Milford, Iowa

BASIC FINANCIAL STATEMENTS

LAKE PARK MUNICIPAL UTILITIES
STATEMENT OF NET POSITION
JUNE 30, 2014

ASSETS

	Electric Fund	Water Fund	Gas Fund	Total
CURRENT ASSETS:				
Cash (Note 2)	\$1,664,883		\$ 998,541	\$2,663,424
Accounts receivable (net) (Note 3)	152,685	\$ 31,243	45,011	228,939
Inventories	209,815	30,041	20,063	259,919
Prepaid expenses	6,433	1,433	3,891	11,757
Interest receivable	88		20	108
TOTAL CURRENT ASSETS	<u>2,033,904</u>	<u>62,717</u>	<u>1,067,526</u>	<u>3,164,147</u>
NONCURRENT ASSETS:				
Restricted assets:				
Revenue bond sinking fund	30,015			30,015
TOTAL NONCURRENT ASSETS	<u>30,015</u>			<u>30,015</u>
CAPITAL ASSETS (Note 4):				
Capital assets	4,908,548	2,383,927	781,004	8,073,479
Accumulated depreciation	(2,408,785)	(1,638,479)	(575,800)	(4,623,064)
TOTAL CAPITAL ASSETS, NET	<u>2,499,763</u>	<u>745,448</u>	<u>205,204</u>	<u>3,450,415</u>
 TOTAL ASSETS	 <u>\$4,563,682</u>	 <u>\$ 808,165</u>	 <u>\$1,272,730</u>	 <u>\$6,644,577</u>

LAKE PARK MUNICIPAL UTILITIES
STATEMENT OF NET POSITION - Continued
JUNE 30, 2014

LIABILITIES AND NET POSITION

	Electric Fund	Water Fund	Gas Fund	Total
CURRENT LIABILITIES:				
Cash deficit		\$253,000		\$ 253,000
Accounts payable	\$ 94,660	16,599	\$ 44,498	155,757
Accrued interest	5,046			5,046
Salaries and benefits payable	1,633	1,217	2,136	4,986
Customer meter deposits	5,857	3,954	8,271	18,082
Current portion long-term debt	<u>140,000</u>			<u>140,000</u>
TOTAL CURRENT LIABILITIES	<u>247,196</u>	<u>274,770</u>	<u>54,905</u>	<u>576,871</u>
LONG-TERM LIABILITIES (Note 5):				
Revenue capital loan notes payable	1,450,000			1,450,000
Less current portion above	<u>(140,000)</u>			<u>(140,000)</u>
TOTAL LONG-TERM LIABILITIES	<u>1,310,000</u>			<u>1,310,000</u>
TOTAL LIABILITIES	<u>1,557,196</u>	<u>274,770</u>	<u>54,905</u>	<u>1,886,871</u>
NET POSITION:				
Net investment in capital assets	1,049,763	745,448	205,204	2,000,415
Restricted for:				
Debt service	30,015			30,015
Unrestricted	<u>1,926,708</u>	<u>(212,053)</u>	<u>1,012,621</u>	<u>2,727,276</u>
TOTAL NET POSITION	<u>3,006,486</u>	<u>533,395</u>	<u>1,217,825</u>	<u>4,757,706</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$4,563,682</u>	<u>\$808,165</u>	<u>\$1,272,730</u>	<u>\$6,644,577</u>

LAKE PARK MUNICIPAL UTILITIES
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2014

	Electric Fund	Water Fund	Gas Fund	Total
REVENUES:				
Operating revenues	<u>\$1,468,623</u>	<u>\$260,172</u>	<u>\$ 883,380</u>	<u>\$2,612,175</u>
OPERATING EXPENSES:				
Direct costs	674,163	47,043	653,392	1,374,598
Other operating expenses	319,006	124,619	153,243	596,868
Administrative expenses	<u>27,647</u>	<u>27,018</u>	<u>25,622</u>	<u>80,287</u>
TOTAL OPERATING EXPENSES	<u>1,020,816</u>	<u>198,680</u>	<u>832,257</u>	<u>2,051,753</u>
OPERATING INCOME	<u>447,807</u>	<u>61,492</u>	<u>51,123</u>	<u>560,422</u>
NON-OPERATING REVENUES (EXPENSES):				
Interest income	19,542	282	8,782	28,606
Economic development contributions	(13,494)	(7,993)	(13,493)	(34,980)
Payments in lieu of property taxes	(43,848)	(5,928)	(11,182)	(60,958)
Interest expense	<u>(60,547)</u>			<u>(60,547)</u>
TOTAL NON-OPERATING EXPENSES	<u>(98,347)</u>	<u>(13,639)</u>	<u>(15,893)</u>	<u>(127,879)</u>
CHANGE IN NET POSITION	349,460	47,853	35,230	432,543
NET POSITION BEGINNING OF YEAR, AS RESTATED	<u>2,657,026</u>	<u>485,542</u>	<u>1,182,595</u>	<u>4,325,163</u>
NET POSITION END OF YEAR	<u>\$3,006,486</u>	<u>\$533,395</u>	<u>\$1,217,825</u>	<u>\$4,757,706</u>

LAKE PARK MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014

	Electric Fund	Water Fund	Gas Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$1,450,074	\$ 253,989	\$ 866,068	\$2,570,131
Cash paid to suppliers	(769,348)	(97,895)	(744,183)	(1,611,426)
Cash paid to employees	(118,114)	(37,051)	(86,544)	(241,709)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>562,612</u>	<u>119,043</u>	<u>35,341</u>	<u>716,996</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Economic development contributions	(13,494)	(7,993)	(13,493)	(34,980)
Payments in lieu of property taxes	(43,848)	(5,928)	(11,182)	(60,958)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>(57,342)</u>	<u>(13,921)</u>	<u>(24,675)</u>	<u>(95,938)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(237,656)	(86,659)	(21,486)	(345,801)
Principal paid on capital loan notes	(135,000)			(135,000)
Interest paid	(60,547)			(60,547)
Decrease in sinking fund	(3,891)			(3,891)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(437,094)</u>	<u>(86,659)</u>	<u>(21,486)</u>	<u>(545,239)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received on investments	<u>19,542</u>	<u>282</u>	<u>8,782</u>	<u>28,606</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>19,542</u>	<u>282</u>	<u>8,782</u>	<u>28,606</u>
NET CHANGE IN CASH	87,718	18,745	(2,038)	104,425
CASH (CASH DEFICIT) BEGINNING OF YEAR	<u>1,577,165</u>	<u>(271,745)</u>	<u>1,000,579</u>	<u>2,305,999</u>
CASH (CASH DEFICIT) END OF YEAR	<u>\$1,664,883</u>	<u>\$(253,000)</u>	<u>\$ 998,541</u>	<u>\$2,410,424</u>

LAKE PARK MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS - Continued
YEAR ENDED JUNE 30, 2014

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Gas Fund</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income	\$447,807	\$ 61,492	\$51,123	\$560,422
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	136,558	56,795	22,872	216,225
(Increase) decrease in:				
Accounts receivable	(19,309)	(7,005)	(18,336)	(44,650)
Inventory	(10,074)	3,792	(1,398)	(7,680)
Prepaid expenses	2,875	(166)	(1,294)	1,415
Increase (decrease) in:				
Accounts payable	6,653	4,499	(16,902)	(5,750)
Accrued salaries and vacation	(2,658)	(1,186)	(1,748)	(5,592)
Customer deposits	<u>760</u>	<u>822</u>	<u>1,024</u>	<u>2,606</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$562,612</u>	<u>\$119,043</u>	<u>\$35,341</u>	<u>\$716,996</u>

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Lake Park Municipal Utilities (Utilities) is a separate and distinct city utility chartered under Iowa Code Section 388. The financial statements of the Utilities include the Electric, Water, and Gas enterprise funds which provide services to the residents of the City of Lake Park, Iowa. Lake Park Municipal Utilities is governed by a five-member board of trustees, which is appointed by the Mayor of the City of Lake Park. Based on the criteria set forth by the Governmental Accounting Standards Board, Lake Park Municipal Utilities is considered a component unit of the City of Lake Park. However, the City's financial statements cover the primary government only; therefore financial information concerning the Utilities is not included.

For financial reporting purposes, Lake Park Municipal Utilities has included all funds, organizations, agencies, boards, commissions, and authorities. The Utilities has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utilities are such that exclusion would cause the Utilities' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Utilities to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities. Lake Park Municipal Utilities has no component units.

Financial Statements

The accounts of Lake Park Municipal Utilities are organized on the basis of funds, each of which is considered to be a separate accounting entity. Individual enterprise funds are reported as separate columns in the financial statements as follows:

Electric Fund - the Electric Fund accounts for the operation and maintenance of the electric distribution system.

Water Fund - The Water Fund accounts for the operation and maintenance of the water distribution system.

Gas Fund - The Gas Fund accounts for the operation and maintenance of the gas distribution system.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Utilities' financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued

The Utilities distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utilities' principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Revenue Recognition

Revenues earned are recorded at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is not considered to have a material effect on the financial statements. The Utilities' rates are established by the Board of Trustees and, as a municipal system, are not subject to the regulation of the Utilities Division of the Department of Commerce of the State of Iowa.

Cash

For the purposes of the statement of cash flows, the Utilities considers as cash all currency on hand and unrestricted demand and other deposit accounts with banks or other financial institutions.

Accounts Receivable

Accounts receivable are recorded at the time the service is billed. Accounts are reviewed annually; accounts considered uncollectable are written off to the allowance for doubtful accounts.

Inventories

Inventories are valued at the lower of cost or market on a first-in, first-out method. Inventories are recorded as expenses or capitalized, if applicable, when consumed rather than when purchased.

Capital Assets

Capital assets are accounted for at historical cost. The cost of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized.

Capital assets of the Utilities are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Building and plant	10 - 40
Equipment	5 - 15
Distribution System	20 - 40
Land Improvements	15

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Restricted Assets

Funds set aside for payment of the Utilities' revenue notes are classified as restricted assets since their use is restricted by applicable note indentures.

Net Position

The Statement of Net Position presents the Utilities' assets and liabilities, with the difference reported as net position. Net position is reported in the following categories.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

Compensated Absences

The Utilities' employees accumulate a limited amount of earned but unused vacation and compensatory time hours for subsequent use or for payment upon termination, retirement or death. A liability is recorded when incurred, included in salaries and benefits payable in the respective enterprise fund financial statements, and computed based on rates of pay in effect at June 30, 2014.

Employees also accumulate a limited amount of earned but unused sick leave. An employee does not receive any pay for sick leave upon termination, retirement or death. Since the amount of sick leave to be used is not determinable, no liability has been accrued.

Economic Development Contributions

By authorization of the Board of Trustees, funds were expended for economic development benefiting the City of Lake Park, Iowa and Lake Park Municipal Utilities.

Payments in Lieu of Property Taxes

By resolution of the Board of Trustees, voluntary payments in lieu of property taxes are made to the City of Lake Park, Iowa. Currently, payments approximate the City's utility usage.

Income Taxes

The Utilities is exempt from federal and state income taxes because it is a governmental entity organized under the provisions of Chapter 388 of the Code of Iowa.

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Budgetary Information

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Management's Review

The Utilities has evaluated subsequent events through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

2. DEPOSITS AND INVESTMENTS

The Utilities' deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities had no assets classified as investments at June 30, 2014.

3. ACCOUNTS RECEIVABLE

Accounts receivable are reported net of allowance for doubtful accounts as follows:

	Electric <u>Fund</u>	Water <u>Fund</u>	Gas <u>Fund</u>
Accounts receivable - customers	\$154,485	\$31,843	\$47,011
Less - allowance for doubtful accounts	<u>1,800</u>	<u>600</u>	<u>2,000</u>
Accounts receivable (net)	<u>\$152,685</u>	<u>\$31,243</u>	<u>\$45,011</u>

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2014

4. CAPITAL ASSETS

Capital assets activity for the year was as follows:

Electric Utility	<u>Balance at July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2014</u>
Capital assets:				
Land and improvements	\$ 11,500			\$ 11,500
Buildings	1,109,405			1,109,405
Equipment	562,300	\$ 33,599		595,899
Distribution system	<u>2,987,687</u>	<u>204,057</u>		<u>3,191,744</u>
Total capital assets	<u>4,670,892</u>	<u>237,656</u>		<u>4,908,548</u>
Less accumulated depreciation for:				
Buildings	258,475	27,597		286,072
Equipment	475,099	19,599		494,698
Distribution system	<u>1,538,653</u>	<u>89,362</u>		<u>1,628,015</u>
Total accumulated depreciation	<u>2,272,227</u>	<u>136,558</u>		<u>2,408,785</u>
Total capital assets, net	<u>\$2,398,665</u>	<u>\$101,098</u>		<u>\$2,499,763</u>
Water Utility	<u>Balance at July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2014</u>
Capital assets:				
Land and improvements	\$ 35,006	\$ 225		\$ 35,231
Buildings	1,407	45,423		46,830
Equipment	198,674	3,428		202,102
Distribution system	<u>2,062,181</u>	<u>37,583</u>		<u>2,099,764</u>
Total capital assets	<u>2,297,268</u>	<u>86,659</u>		<u>2,383,927</u>
Less accumulated depreciation for:				
Land and improvements	13,228			13,228
Buildings	1,028	1,206		2,234
Equipment	180,890	6,167		187,057
Distribution system	<u>1,386,538</u>	<u>49,422</u>		<u>1,435,960</u>
Total accumulated depreciation	<u>1,581,684</u>	<u>56,795</u>		<u>1,638,479</u>
Total capital assets, net	<u>\$ 715,584</u>	<u>\$29,864</u>		<u>\$ 745,448</u>

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2014

4. CAPITAL ASSETS - Continued

Gas Utility	<u>Balance at July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2014</u>
Capital assets:				
Land and improvements	\$ 2,061			\$ 2,061
Equipment	247,197	\$ 3,428		250,625
Distribution system	510,260	18,058		528,318
Total capital assets	<u>759,518</u>	<u>21,486</u>		<u>781,004</u>
Less accumulated depreciation for:				
Equipment	204,120	10,555		214,675
Distribution system	348,808	12,317		361,125
Total accumulated depreciation	<u>552,928</u>	<u>22,872</u>		<u>575,800</u>
Total capital assets, net	<u>\$206,590</u>	<u>\$ (1,386)</u>		<u>\$205,204</u>

5. LONG-TERM DEBT

A summary of changes in long-term liabilities for the year ended June 30, 2014 is as follows:

	<u>Balance at June 30, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2014</u>	<u>Due Within One Year</u>
Electric revenue refunding capital loan notes	<u>\$1,585,000</u>	<u> </u>	<u>\$135,000</u>	<u>\$1,450,000</u>	<u>\$140,000</u>

Electric Fund Revenue Refunding Capital Loan Notes

On March 11, 2008, the Utility issued electric revenue refunding capital loan notes in the amount of \$2,310,000. The notes bear interest of 3.82% and mature in varying annual amounts, ranging from \$140,000 to \$185,000, with the final maturity due June 1, 2023.

The notes are secured by future net revenues of the Electric Utility. Proceeds from the notes provided financing for the construction of improvements to the system. Annual principal and interest payments on the notes are expected to require less than 40% of net revenues. The total principal and interest remaining to be paid on the notes is \$1,740,511. For the current year, principal and interest paid and total customer net revenues (operating income plus depreciation/amortization expense) were \$195,547 and \$584,365, respectively.

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2014

5. LONG-TERM DEBT - Continued

The resolution providing for the issuance of the notes provides for the creation of a Sinking Fund, into which shall be set aside an amount equal to the amount of annual principal and interest coming due on those bonds.

A summary of the annual principal and interest requirements to maturity by year is as follows:

Year <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 140,000	\$ 55,390	\$ 195,390
2016	145,000	50,042	195,042
2017	145,000	44,503	189,503
2018	155,000	38,964	193,964
2019	160,000	33,043	193,043
2020 - 2023	<u>705,000</u>	<u>68,569</u>	<u>773,569</u>
TOTAL	<u>\$1,450,000</u>	<u>\$290,511</u>	<u>\$1,740,511</u>

6. PENSION AND RETIREMENT BENEFITS

The Utilities contributes to the Iowa Public Employees' Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.95% of their annual covered salary and the Utilities is required to contribute 8.93% of covered salary. Contribution requirements are established by state statute. The Utilities' contribution to IPERS for the years ended June 30, 2014, 2013, and 2012 were \$20,661, \$20,194, and \$18,759, respectively, equal to the required contributions for each year.

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2014

7. OTHER POST EMPLOYMENT BENEFITS (OPEB)

The Utilities operate a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 4 active and no retired members in the plan. Retired participants must be age 55 or older at retirement. Benefits terminate upon attaining Medicare eligibility. Coverage is provided through a fully-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability. It is anticipated retiree premiums will be fully offset by monthly contributions.

The Utilities has not implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions. This is a departure from accounting principles generally accepted in the United States of America. The amount by which this departure would affect liabilities, net assets and expenses is not reasonably determinable.

8. LOCAL GOVERNMENT RISK POOL

Lake Park Municipal Utilities is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 700 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2014

8. LOCAL GOVERNMENT RISK POOL - Continued

Lake Park Municipal Utilities' property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. Lake Park Municipal Utilities' contributions to the Pool for the year ended June 30, 2014 were \$15,675.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Utilities' risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location. Property risks exceeding \$150,000 are reinsured through reinsurance and risk-sharing agreements up to the amount of risk-sharing protection provided by the Utilities' risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any reinsurance and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred. The Utilities does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2014, no liability has been recorded in the Utilities' financial statements. As of June 30, 2014, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

Lake Park Municipal Utilities also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2014

9. RELATED PARTY TRANSACTIONS

The Utilities had business transactions between the Utilities and a business owned by a board member and a spouse of a Utilities' employee totaling \$3,994 during the year ended June 30, 2014.

10. PRIOR PERIOD ADJUSTMENT

The Governmental Accounting Standards Board has issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement was implemented for the fiscal year ending June 30, 2014 and requires that costs related to the issuance of debt no longer be recorded as an asset and be amortized over the life of the debt. They should, instead, be recognized as an expense in the period incurred. This change is to be applied retroactively. Adjustments recorded to reflect this change resulted in a decrease in noncurrent assets and net position at June 30, 2013 by \$47,744.

REQUIRED SUPPLEMENTARY INFORMATION

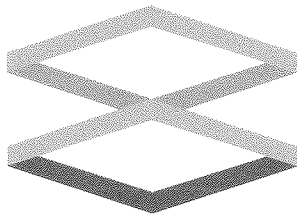
LAKE PARK MUNICIPAL UTILITIES
BUDGETARY COMPARISON SCHEDULE OF
REVENUES, EXPENSES, AND CHANGES IN BALANCES - BUDGET AND ACTUAL
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2014

	Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
REVENUES:				
Charges for services	\$2,612,175	\$2,186,890	\$2,486,890	\$125,285
Non-operating	28,606	19,000	19,000	9,606
TOTAL REVENUES	<u>2,640,781</u>	<u>2,205,890</u>	<u>2,505,890</u>	<u>134,891</u>
EXPENSES:				
Electric	1,138,705	1,219,450	1,219,450	80,745
Water	212,601	258,525	258,525	45,924
Gas	856,932	565,755	865,755	8,823
TOTAL EXPENSES	<u>2,208,238</u>	<u>2,043,730</u>	<u>2,343,730</u>	<u>135,492</u>
CHANGE IN NET POSITION	432,543	162,160	162,160	<u>\$270,383</u>
NET POSITION BEGINNING OF YEAR, AS RESTATED	<u>4,325,163</u>	<u>4,234,726</u>	<u>4,372,907</u>	
NET POSITION END OF YEAR	<u>\$4,757,706</u>	<u>\$4,396,886</u>	<u>\$4,535,067</u>	

LAKE PARK MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2014

In accordance with the Code of Iowa, the Utilities annually adopts a budget following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. All Utilities' disbursements are included in business-type activities function. During the year, a budget amendment increased budgeted disbursements by \$300,000. This budget amendment is reflected in the final budgeted amounts.



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Lake Park Municipal Utilities

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the electric, water and gas enterprise funds of Lake Park Municipal Utilities (Utilities) as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the Utilities' basic financial statements, and have issued our report thereon dated October 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lake Park Municipal Utilities' internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a certain deficiency in internal control we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Utilities' financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-A-14 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lake Park Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Lake Park Municipal Utilities' Responses to Findings

Lake Park Municipal Utilities' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Utilities' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Utilities' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Lake Park Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Wintner, Stave & Co., LLP

October 10, 2014
Milford, Iowa

LAKE PARK MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014

Part I: Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCY:

I-A-14 Segregation of Duties - One employee handles most of the financial duties, including reconciling accounts and recording financial data. One important aspect of internal control is to prevent employees from handling duties which are incompatible.

Recommendation - We realize that it is difficult to appropriately segregate duties when the number of employees is limited. Therefore, we recommend the Board maintain their diligence in the review of the financial records.

Response - We will continue our review.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

LAKE PARK MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS - Continued
YEAR ENDED JUNE 30, 2014

Part II: Other Findings Related to Required Statutory Reporting

II-A-14 Certified Budget - Total disbursements for all funds during the year ended June 30, 2014 did not exceed the total amount budgeted.

II-B-14 Questionable Disbursements - We noted no expenditures that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-14 Travel Expense - No expenditures for travel expenses of spouses of officials or employees of the Utilities were noted.

II-D-14 Business Transactions - Business transactions between the Utilities and Utilities' officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Brent Jacobsen, Trustee and Mike Treharne, spouse of employee, Owners of Midwest Cabinet Creations, Inc.	Building improvements	\$3,994

This transaction does not appear to represent a conflict of interest as defined by Chapter 362.5 of the Code of Iowa as there was a signed developer rebate agreement related to this expenditure.

II-E-14 Bond Coverage - Surety bond coverage of Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

II-F-14 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.

II-G-14 Revenue Notes - The Electric Utility is in compliance with all aspects of the capital loan notes resolution, including cash reserves.

II-H-14 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy.